

NITTO WORLD CO., LIMITED

ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 1989

TOGETHER WITH DIRECTORS' AND AUDITORS' REPORT

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NITTO WORLD CO., LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 1989

The directors present their annual report on the affairs of the company together with the accounts and auditors' report for the year ended 31 December 1989.

PRINCIPAL ACTIVITY AND BUSINESS REVIEW:

The principal activity of the company continues to be the ownership of the Turnberry Hotel and Golf Courses.

The company purchased the trade and assets of Turnberry Hotel and Golf Courses during 1987 under an agreement where the vendors are retained as operators primarily to market the hotel and golf courses in return for an operators fee.

In November 1988 the company began a £4 million refurbishment programme at Turnberry Hotel. This was largely completed in 1989 and is expected to increase the profitability of the Hotel in future years. In addition, the company has commenced construction of a health and leisure centre which will enhance the hotel's marketability.

RESULTS AND DIVIDENDS:

The turnover for the year was £4,255,857 (1988 - £3,872,305) and the loss on ordinary activities before taxation was £81,094 (1988 - £401,314). A tax credit of £NIL (1988 - £20,000) has been recognised, resulting in an accumulated deficit for the year of £295,852 (1988 - £214,758).

No dividend is proposed.

DIRECTORS AND THEIR INTERESTS:

The directors of the company during the year were:

K. Mizuno
T. Niino
A. McMillan
H. Matsuura
K. Nakamura
Y. Matsuura

No director had a beneficial interest in the shares of the company at any time during the year.

FIXED ASSETS:


Information relating to changes in tangible fixed assets is given in Note 10 to the accounts.

DIRECTORS' REPORT (CONTINUED)

AUDITORS:

A resolution will be submitted at the Annual General Meeting proposing the re-appointment of Arthur Andersen & Co., Chartered Accountants, as auditors and authorising the Directors to fix their remuneration.

BY ORDER OF THE BOARD



K. MIZUNO
COMPANY SECRETARY

14 June 1990

ARTHUR ANDERSEN & CO
199 ST VINCENT STREET
GLASGOW G2 5QD

Auditors' Report to the Members of NITTO WORLD CO., LIMITED:

We have audited the financial statements on pages 4 to 15 in accordance with Auditing Standards.

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 1989 and of its loss and source and application of funds for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen & Co

14 June 1990

NITTO WORLD CO., LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 1989

	<u>Notes</u>	<u>1989</u>	<u>1988</u>
TURNOVER	1e)&2	£4,255,857	£3,878,305
Cost of sales		(2,407,631)	(2,194,846)
GROSS PROFIT		1,848,226	1,683,459
Other operating expenses	3	(1,507,600)	(1,725,052)
OPERATING PROFIT/(LOSS)		340,626	(41,593)
Investment income	4	266,805	90,788
Interest payable and similar charges	5	(688,525)	(450,509)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	6	(81,094)	(401,314)
Taxation	1g)&7	-	20,000
LOSS FOR THE FINANCIAL YEAR		(81,094)	(381,314)
RETAINED (LOSS)/PROFIT BROUGHT FORWARD	9	(214,758)	166,556
ACCUMULATED DEFICIT CARRIED FORWARD		£ (295,852)	£ (214,758)

The accompanying notes are an integral part of this profit and loss account.

MITTO WORLD CO., LIMITED

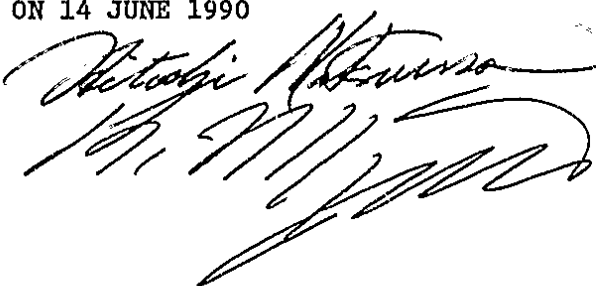
BALANCE SHEET -- 31 DECEMBER 1989

	Notes	1989	1988
FIXED ASSETS			
Tangible assets	1b)&10	£18,999,701	£16,011,257
CURRENT ASSETS			
Stocks	1c)&11	161,603	143,682
Debtors	12	1,578,537	309,906
Cash at bank and in hand		1,880,957	972,258
		3,621,097	1,425,846
CREDITORS: Amounts falling due within one year	13	(3,771,822)	(2,040,646)
NET CURRENT LIABILITIES		(150,725)	(614,800)
TOTAL ASSETS LESS CURRENT LIABILITIES		18,848,976	15,396,457
CREDITORS: Amounts falling due after more than one year	14	(10,344,828)	(6,811,215)
NET ASSETS		£ 8,504,148	£ 8,585,242
CAPITAL AND RESERVES			
Called-up share capital	16	£ 8,800,000	£ 8,800,000
Profit and loss account		(295,852)	(214,758)
TOTAL CAPITAL EMPLOYED		£ 8,504,148	£ 8,585,242

SIGNED ON BEHALF OF THE BOARD ON 14 JUNE 1990

H. MATSUURA Director

K. MIZUNO Director



The accompanying notes are an integral part of this balance sheet.

NITTO WORLD CO., LIMITED
STATEMENT OF SOURCE AND APPLICATION OF FUNDS
FOR THE YEAR ENDED 31 DECEMBER 1989

	1989	1988
SOURCE OF FUNDS		
Increase in creditors due after more than one year	£ 3,533,613	£ -
Proceeds from issue of ordinary shares	-	800,000
Proceeds from disposal of tangible fixed assets	1,181	5,314
Increase in net current liabilities, as shown below	-	1,616,033
	=====	=====
	£ 3,534,794	£ 2,421,347
	=====	=====
APPLICATION OF FUNDS		
Loss on ordinary activities after taxation	£ 81,094	£ 381,314
Deduct items not involving the movement of funds: - depreciation	(242,928)	(221,541)
	=====	=====
Total funds absorbed by operations	(161,834)	159,773
Purchase of tangible fixed assets	3,232,553	2,047,963
Decrease in creditors due after more than one year	-	213,611
Decrease in net current liabilities, as shown below	464,075	-
	=====	=====
	£ 3,534,794	£ 2,421,347
	=====	=====
DECREASE/(INCREASE) IN NET CURRENT LIABILITIES		
Stocks	£ 17,921	£ (16,468)
Debtors	1,268,631	45,659
Creditors falling due within one year	(1,731,176)	(1,204,988)
	=====	=====
	(444,624)	(1,175,797)
Movement in net liquid funds:		
- cash at bank and in hand	908,699	(440,236)
	=====	=====
	£ 464,075	£(1,616,033)
	=====	=====

The accompanying notes are an integral part of this statement of source and application of funds.

NITTO WORLD CO., LIMITED

NOTES TO ACCOUNTS - 31 DECEMBER 1989

1. STATEMENT OF ACCOUNTING POLICIES:

A summary of the principal accounting policies, all of which have been applied consistently throughout the year, is set out below.

a) Basis of accounting

The accounts are prepared under the historical cost convention.

b) Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation. Cost includes incidental acquisition expenses. No depreciation is provided on freehold buildings as the directors are of the opinion that the length of lives and residual values of these buildings are such that no provision for depreciation is required. Depreciation on other tangible fixed assets is provided on the straight-line basis using the following annual rates which are based on the expected economic lives of the assets:

Plant and equipment 10% to 20%

c) Stocks

Stocks are stated at the lower of cost and net realisable value.

d) Foreign Currency

Normal trading activities denominated in foreign currencies are recorded in sterling at exchange rates as of the date of the transaction or the average exchange rate for the year. Monetary assets and liabilities denominated in foreign currencies at the year-end are reported at the rates of exchange prevailing at the year-end. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is reported as an exchange gain or loss in the profit and loss account.

e) Turnover

Turnover is stated at the invoiced value of goods and services provided, exclusive of VAT and net of discounts granted.

f) Leases

Assets acquired under finance leases are recorded in the balance sheet as an asset with an equivalent obligation categorised as appropriate under creditors due within or after one year. The amount recorded as an asset at the start of the lease is the purchase price equivalent. The asset is depreciated over the shorter of the lease term and its useful economic life. Obligations related to finance leases represent the total of the minimum lease payments outstanding at the date of the balance sheet. Future finance charges are not included. Finance charges are allocated to accounting periods over the period of the lease to produce a constant rate of return on the outstanding balance.

NITTO WORLD CO., LIMITED
NOTES TO ACCOUNTS (CONTINUED)

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED):

f) Leases (continued)

Rentals under operating leases are charged on a straight-line basis over the lease term.

g) Taxation

Corporation tax payable is provided on taxable profits at the current rate.

Deferred taxation (which arises from differences in the timing of the recognition of items, principally depreciation, in the accounts and by the tax authorities) has been calculated on the liability method.

Deferred tax is provided on timing differences which will probably reverse, at the rates of tax likely to be in force at the time of reversal. Deferred tax is not provided on timing differences which, in the opinion of the directors, will probably not reverse.

h) Pension Contributions

The company operates a defined benefits pension scheme. Pension contributions are charged to the profit and loss account on the basis of spreading the cost of providing pensions over the period of employees' services to the company. For details of fund see Note 17.

2. SEGMENT INFORMATION:

The company's turnover and profit on ordinary activities before taxation were derived entirely from the Turnberry Hotel and Golf Courses in Scotland.

3. OTHER OPERATING EXPENSES:

	<u>1989</u>	<u>1988</u>
Selling and marketing costs	£ 357,192	329,707
Administrative expenses	1,150,408	1,395,345
	<u>£1,507,600</u>	<u>£1,725,052</u>
	=====	=====

4. INVESTMENT INCOME:

	<u>1989</u>	<u>1988</u>
Investment income comprises:		
Interest receivable	£ 266,805	£ 90,788
	<u>=====</u>	<u>=====</u>

NITTO WORLD CO., LIMITED
NOTES TO ACCOUNTS (CONTINUED)

5. INTEREST PAYABLE AND SIMILAR CHARGES:

	<u>1989</u>	<u>1988</u>
On loan from parent company:		
- repayable within five years, not by instalment	£ 205,718	£ 450,509
On bank loans:		
- repayable within 5 years, not by instalment	482,807	-
	<u>£ 688,525</u>	<u>£ 450,509</u>

6. LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION:

	<u>1989</u>	<u>1988</u>
Loss on ordinary activities before taxation for the year is stated after charging/(crediting):		
a) Depreciation	£ 242,928	£ 221,541
b) Auditors' remuneration	16,500	15,000
c) Staff costs (Note 8)	1,571,520	1,357,176
d) Foreign exchange gain	(240,456)	-
e) Operator's fee	111,496	115,700
f) Capital duty on raising share capital	-	8,000
g) Hire of plant and machinery - under operating leases	68,240	59,377
	<u>=====</u>	<u>=====</u>

7. TAXATION:

The tax credit/(charge) comprises:

	<u>1989</u>	<u>1988</u>
Corporation tax at 35%	£ -	£ -
Over provision in prior period	-	20,000
	<u>£ -</u>	<u>£ 20,000</u>

NITTO WORLD CO., LIMITED
NOTES TO ACCOUNTS (CONTINUED)

8. STAFF COSTS:

Particulars of employees are as shown below.

	<u>1989</u>	<u>1988</u>
Employee costs during the year amounted to:		
Wages and salaries	£1,292,655	£1,138,725
Social security costs	98,233	82,221
Other pension costs	55,912	48,867
Other employee related costs	124,720	87,363
	<u>£1,571,520</u>	<u>£1,357,176</u>

The average weekly number of persons employed by the company during the year was as follows:

	<u>1989</u> <u>Number</u>	<u>1988</u> <u>Number</u>
Office and Management	166	165
Casual	42	46
	<u>208</u>	<u>211</u>

No employees received over £30,000 per annum in remuneration during the year (1988 - Nil).

Directors' remuneration:

No directors received any remuneration for the year.

9. PRIOR PERIOD ADJUSTMENT:

Retained profits brought forward at 31 December 1987 have been restated as follows:-

As previously reported	£ 39,480
Adjustment	127,076
As restated	<u>£166,556</u>

The restatement was made because the company's depreciation policy was changed during 1988. In the previous period depreciation was provided on freehold buildings, but the directors are of the opinion that the length of lives and residual values of these buildings are such that no provision for depreciation is now required.

NITTO WORLD CO., LIMITED

NOTES TO ACCOUNTS (CONTINUED)

In order to restate the results for the period ended 31 December 1987 a prior period adjustment was made as follows:

Profit and loss account

Reduction in administrative expenses	£127,076
	=====

Balance Sheet

Increase in tangible fixed assets	£127,076
	=====

10. TANGIBLE FIXED ASSETS:

The following are included in the net book value of tangible fixed assets:

	<u>1989</u>	<u>1988</u>
Freehold land and buildings	£17,455,157	£14,306,752
Plant and equipment	1,544,544	1,704,505
	-----	-----
Net tangible fixed assets	£18,999,701	£16,011,257
	=====	=====

The movement in the year was as follows:

	<u>Freehold Land and Buildings</u>	<u>Plant & Equipment</u>	<u>Total</u>
Cost:			
Beginning of year	£14,306,752	£ 2,099,790	£16,406,542
Additions	3,148,405	84,148	3,232,553
Disposals	-	(1,188)	(1,188)
	-----	-----	-----
End of year	17,455,157	2,182,750	19,637,907
	-----	-----	-----
Depreciation:			
Beginning of year	-	395,285	395,285
Charge	-	242,928	242,928
Disposals	-	(7)	(7)
	-----	-----	-----
End of year	-	638,206	638,206
	-----	-----	-----
Net book value, beginning of year	£14,306,752	£ 1,704,505	£16,011,257
	=====	=====	=====
Net book value, end of year	£17,455,157	£ 1,544,544	£18,999,701
	=====	=====	=====

NITTO WORLD CO., LIMITED
NOTES TO ACCOUNTS (CONTINUED)

11. STOCKS:

The following are included in stocks:

	<u>1989</u>	<u>1988</u>
Glass, crockery and silverware	£ 72,428	£ 84,182
Food and beverage	75,621	49,238
Other	13,554	10,262
	<u>£ 161,603</u>	<u>£ 143,682</u>

The directors consider that there is no significant difference between the balance sheet value and the replacement cost of stocks at the balance sheet date.

12. DEBTORS:

The following are included in debtors:

	<u>1989</u>	<u>1988</u>
Amounts falling due within one year:		
Trade debtors	£ 247,212	£ 202,304
Prepayments and accrued income	110,134	80,829
VAT	-	26,773
Amounts due from other group companies	1,221,191	-
	<u>£1,578,537</u>	<u>£ 309,906</u>

13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR:

The following amounts are included in creditors falling due within one year:

	<u>1989</u>	<u>1988</u>
Trade creditors	£ 71,768	£ 14,643
Amounts due to parent company	3,150,470	1,297,697
Current portion of finance lease obligations	11,661	11,214
Accruals and deferred income	415,123	671,351
UK Corporation tax payable	-	-
Payments on account	35,679	20,777
Other creditors:		
- social security and PAYE	34,740	24,964
VAT	52,381	-
	<u>£3,771,822</u>	<u>£2,040,646</u>

NITTO WORLD CO., LIMITED

NOTES TO ACCOUNTS (CONTINUED)

14. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR:

The following amounts are included in creditors falling due after more than one year:

	<u>1989</u>	<u>1988</u>
Loan due to parent company	£ -	£6,800,000
Long term portion of finance lease obligations	-	11,215
Bank loan	10,344,828	-
	<u>£10,344,828</u>	<u>£6,811,215</u>
	=====	=====

The loan from the parent company is a 4.5% unsecured loan. £4,412,112 was repaid during 1989 and the remaining balance of £2,387,888 is now repayable within one year (previously repayable in seven annual instalments over 1991 to 1997) and is included within amounts due to parent company within one year at Note 13 above.

Bank Loans:

6% secured loan repayable in July 1994	£ 5,172,414
5.7% secured loan repayable in May 1994	2,586,207
5.625%-7.0625% secured loan repayable in May 1994	2,586,207
	<u>£10,344,828</u>
	=====

Obligations under finance leases are repayable as follows:

	<u>1989</u>	<u>1988</u>
Within 1 year	£ 11,661	£ 11,214
Within 2-5 years	-	11,215
	<u>£ 11,661</u>	<u>£ 22,429</u>
	=====	=====

15. DEFERRED TAXATION:

No deferred taxation has been provided at 31 December 1989.

The amounts of unprovided deferred taxation are as follows:

	<u>1989</u>	<u>1988</u>
Excess of tax allowances over book depreciation of fixed assets	£ 158,927	£ 126,095
Other timing differences related to:		
- current assets and liabilities	(158,927)	(126,095)
	<u>£ -</u>	<u>£ -</u>
	=====	=====

MITTO WORLD CO., LIMITED

NOTES TO ACCOUNTS (CONTINUED)

16. CALLED-UP SHARE CAPITAL:

	<u>1989</u>	<u>1988</u>
Authorised:		
88,000 ordinary shares of £100 each	£8,800,000 =====	£8,800,000 =====
Allotted, called-up and fully-paid:		
88,000 ordinary shares of £100 each	£8,800,000 =====	£8,800,000 =====

17. GUARANTEES AND OTHER FINANCIAL COMMITMENTS:

a) Capital commitments:

At the end of the year, capital commitments were:

	<u>1989</u>	<u>1988</u>
Contracted for but not provided for	£6,946,110	£3,018,355
Authorised but not contracted for	-	-
	----- £6,946,110 =====	----- £3,018,355 =====

b) Lease commitments:

The company has entered into non-cancellable leases in respect of plant and equipment, the payments for which extend over a period of up to 9 years. The total rental for 1989 was £68,240 (1988 - £59,377).

The minimum annual rentals under the foregoing leases are as follows:

	<u>Plant and Equipment</u>	
	<u>1989</u>	<u>1988</u>
Operating leases which expire		
- within 1 year	£ 14,511	£ 11,388
- within 2-5 years	58,485	47,208
- after 5 years	7,088	7,105
	----- £ 80,084 =====	----- £ 65,701 =====

c) Pension arrangements:

The company operates a pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the company, being invested on the company's behalf by Sedgwick Financial Services Limited.

Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company. The contributions are determined by a qualified actuary on the basis of valuations using the attained age method.

NITTO WORLD CO., LIMITED

NOTES TO ACCOUNTS (CONTINUED)

The most recent valuation was as at 1 October 1988 when the scheme was set up. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions. It was assumed that the investment returns would be 8.5% per annum, that salary increases would average 7% per annum and that present and future pensions would increase at the rate of 6% per annum.

c) Pension arrangements (continued):

The pension charge for the year was £45,800. This included a credit of £10,062 in respect of the amortisation of experience surpluses that are being recognised over 10 years, the average remaining service lives of employees.

The most recent actuarial valuation showed that the market value of the scheme's assets was £384,982 and that the actuarial value of those assets represented 140% of the benefits that had accrued to members, after allowing for expected future increases in earnings. The contributions of the company and employees will be 13% and 7.2% respectively from 1 January 1990. Until this date the contributions of the company and employees were 16.67% and 9.33% respectively.

18. ULTIMATE HOLDING COMPANY:

The ultimate holding company is Nitto Kogyo Co., Limited, a company incorporated in Japan.